

**MINUTES**  
**BOARD OF TRUSTEES OF THE**  
**PUBLIC EMPLOYEES' RETIREMENT FUND**  
**143 West Market Street, Suite 500**  
**Indianapolis, Indiana 46204**  
**August 17, 2007**

**REGULAR SESSION**

**Board Members Present**

Ken Cochran, Chair  
Kevin Boehnlein, Vice Chair\*  
Matt Murphy  
Bob Welch  
Ryan Kitchell  
Kathy Ettensohn

**Board Members Absent**

**Others Present**

Doug Kryscio, Mercer Investment Consulting  
Pete Keliuotis, Strategic Investment Solutions (SIS)  
Curt Smith, Strategic Investment Solutions (SIS)  
Faraz Shooshani, Strategic Investment Solutions (SIS)  
John McCormick, Blackstone Alternative Asset Management (BAAM)  
Brian Gavin, Blackstone Alternative Asset Management (BAAM)  
Michael Halpern, Dorchester Capital Advisors (DCA)  
Sean Gannon, Dorchester Capital Advisors (DCA)  
Geoffrey Lasry, Pacific Alternative Asset Management (PAAMCO)  
Von Hughes, Pacific Alternative Asset Management (PAAMCO)

**PERF Staff Present**

Terry Magid, Executive Director  
Andrea Unzicker, General Counsel  
Shawn Wischmeier, Chief Investment Officer  
Jeff Hutson, Director of Communications  
Robyn Poole, Accounting Manager  
Erin Hankins, Executive Assistant  
Jeri Mains, Legal Assistant

Meeting called to order at 1:14 by Chairman Cochran.

\*Elected during meeting.

## **I. Approval of Minutes**

**MOTION** duly made and carried to approve the minutes from June 21, 2007 Board of Trustees Retreat board meeting.

*Proposed by: Matt Murphy*  
*Seconded by: Ryan Kitchell*  
*Votes: 5 in favor, 0 opposed, 1 abstentions (Kevin Boehnlein)*

**MOTION** duly made and carried to approve the minutes from the June 21, 2007 board meeting.

*Proposed by: Matt Murphy*  
*Seconded by: Ryan Kitchell*  
*Votes: 5 in favor, 0 opposed, 1 abstentions (Kevin Boehnlein)*

## **II. Old Business**

- **Legislative Implementation Update**

Andrea Unzicker spoke regarding two pieces of legislation: HEA 1067 and SEA 501.

Ms. Unzicker reported that HEA 1067 includes the requirement that PERF engage, and potentially divest from investments in, companies with certain operations in Sudan. Ms. Unzicker provided an overview of the mechanics of the legislation. PERF, along with TRF, issued a RFP to solicit bids to engage a service provider to implement the requirements of HEA 1067. The RFP returned two responses. Institutional Shareholder Services, Inc. (ISS) provided a superior proposal. PERF and TRF have awarded the contract to ISS. PERF will report to the Legislative Council prior to November 1, 2007, as required by the statute.

SEA 501 provides medical benefit accounts to state employees. Under the legislation, which went into effect on August 1, 2007, amounts are contributed pre-tax by the state on behalf of state employees and accumulate in an account only to be used following retirement for the payment of certain medical expenses. The text of the legislation provides that State Personnel, PERF or another agency may be asked to assist with this program. Last week PERF was approached by the budget director about the potential to oversee administration of these accounts. Because IRS rules prohibit the diversion of any fund resources to any purpose other than the exclusive benefit of Fund members in accordance with Plan terms, if we were asked to provide assistance in connection with this program, separate accounting would need to be created and any PERF resources used would be billed back to the medical benefits program.

### III. New Business

- **Election of the Vice Chair**

The board voted and elected Kevin Boehnlein as Vice Chair for the Board of Trustees of the Public Employees' Retirement Fund.

**MOTION** duly made and carried to approve Kevin Boehnlein as Vice Chair for the Board of Trustees of the Public Employees' Retirement Fund.

<i>Proposed by:</i>	<i>Ryan Kitchell</i>
<i>Seconded by:</i>	<i>Bob Welch</i>
<i>Votes:</i>	<i>5 in favor, 0 opposed, 1 abstentions (Kevin Boehnlein)</i>

- **Investments**

Investments Update

Shawn Wischmeier provided the board with an investments update.

Private Equity Recommendations

Mr. Wischmeier discussed four private equity opportunities. At the June 21, 2007 board meeting, Staff and SIS gained approval to commit up to €25 million to Lion Capital II L.P., pending final due diligence and document review by legal counsel. Staff is requesting the Board approve an increase in the planned commitment amount from €25 million to €35 million based on PERF's ability to receive an additional allocation to an oversubscribed fund.

It is recommended that the board approve an increase allocation to Lion Capital II L.P. from €25 million to €35 million, pending final due diligence and document review by legal counsel.

**MOTION** duly made and carried to approve an increased allocation to Lion Capital II L.P. from €25 million to €35 million, pending final due diligence and document review by legal counsel.

<i>Proposed by:</i>	<i>Kathy Ettensohn</i>
<i>Seconded by:</i>	<i>Bob Welch</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

The second investment proposal is to WLR Recovery Fund IV, LP (WLR). WLR is raising a \$2.5 billion fund that makes control investments in distressed securities. WLR targets companies that are undergoing bankruptcy or reorganization. WLR takes control positions in businesses that are less efficient, such as industries that have fallen out of favor, which offer a greater potential for returns.

The previous fund has generated upper quartile returns; Fund IV will continue the same investment strategy as Fund III.

It is recommended that the board approve up to a \$50 million commitment to WLR Recovery Fund IV, LP (WLR) pending final due diligence and document review by legal counsel.

**MOTION** duly made and carried to approve a commitment of up to a \$50 million commitment to WLR Recovery Fund IV, LP (WLR) pending final due diligence and document review by legal counsel.

<i>Proposed by:</i>	<i>Bob Welch</i>
<i>Seconded by:</i>	<i>Matt Murphy</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

The third investment proposal is to Brentwood Associates Private Equity IV. Brentwood is raising a \$500 million fund that invests in consumer and consumer-related businesses. Brentwood targets growth companies where it can be the first institutional investor with the opportunity to grow the underlying business. Brentwood takes control positions to effect change with a focus on accelerating growth and increasing enterprise value through the operational expertise of the partners.

The previous fund, Fund III, has generated upper quartile returns to date. Fund IV will continue with the same investment strategy as Fund III. Fund IV represents a mature portfolio, with four significant investments all held at cost.

It is recommended that the board approve up to a \$30 million commitment to Brentwood Associates Private Equity IV pending final due diligence and document review by legal counsel.

**MOTION** duly made and carried to approve a commitment of up to a \$30 million commitment to Brentwood Associates Private Equity IV pending final due diligence and document review by legal counsel.

<i>Proposed by:</i>	<i>Matt Murphy</i>
<i>Seconded by:</i>	<i>Bob Welch</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

#### Fund of Hedge Funds Recommendation

Mr. Wischmeier discussed the absolute return allocation and introduced Doug Kryscio with Mercer Investment Consulting. Mr. Kryscio reviewed the asset liability study that was done in August 2006 and how absolute return fits into the plan.

Mr. Wischmeier also introduced Pete Keliuotis of Strategic Investment Solutions (SIS) who discussed how SIS worked with PERF to design this allocation and to identify managers.

Mr. Wischmeier introduced Von Hughes and Geoffrey Lasry of Pacific Alternative Asset Management (PAAMCO) to the board. PAAMCO is a \$9 billion fund of hedge funds based out of California with a focus on emerging hedge fund managers.

Mr. Wischmeier introduced John McCormick and Brian Gavin of Blackstone Alternative Asset Management (BAAM). BAAM is a \$14 billion fund of hedge funds that was founded in 1990 by the Blackstone Group, a multi-billion dollar diversified alternative investment management firm.

Mr. Wischmeier introduced Michael Halpern and Sean Gannon of Dorchester Capital Advisors (DCA). DCA is a \$1.3 billion fund of hedge funds based out of Los Angeles and founded in 2002 by two former hedge fund managers. DCA solely focuses on managing fund of hedge funds.

It is recommended that the board approve entering this space through an initial allocation to a portfolio of Fund of Hedge Funds (“FOHF”) managers that will assist in the development of a stable base around which to build the program. Over time, staff will engage the core FOHF managers to develop the required infrastructure, processes and expertise necessary to deploy and manage a portfolio of direct hedge fund investments. These FOHF managers will provide the benefits of immediate diversification as well as assistance in developing a portfolio of direct investments.

**MOTION** duly made and carried to approve a FOHF absolute return allocation.

*Proposed by:*  
*Seconded by:*  
*Votes:*

*Bob Welch*  
*Matt Murphy*  
*6 in favor, 0 opposed, 0 abstentions*

- **Financial & Budget**

Financial Update

Robyn Poole reviewed the unaudited financial statements with the Board. PERF’s total net assets held in trust since last year at June 30, has increased by \$2.5 billion which is primarily attributed to the increase in PERF’s investments. The pension and disability benefits PERF is paying to its members are outpacing the contributions that are being received from employees. However, the fund still continues to grow because of the strong returns from investment assets.

- **Benefits**

Line of Duty Death Benefit

Mr. Magid presented the board with two line-of-duty death benefits. The first one discussed was Officer Frank C. Denzinger who was fatally wounded by a teenager, who later committed suicide after the shooting occurred. The cause of death was "Gunshot Wound to chest".

The second Officer was David E. Rich who was fatally wounded by a motorist alongside State Road 24 as he pulled over to assist. As Trooper Rich reached the motorist's window he was shot in the chest with a 20 gauge shotgun. The motorist then reloaded the shotgun and committed suicide. The cause of death was "Multiple Rifle Wounds."

**IV. Executive Director Report**

Terren Magid reviewed PERF's month-end scorecard measures with the board. Customer Satisfaction is at 89% which is the highest seen in the last 2 years. Automated transactions were in the red a year ago at 13% and are now up to 38%.

From a customer service perspective, PERF hit 100% of retirements completed within 30 days for members who follow PERF processes. One of PERF's goals for the next quarter is to elevate the metric for distributions from 90 to 95% completed within 30 days.

For the first time, PERF provided annual statements to our members. As of June, 89% of members have received their annual statements. We anticipate all members will have annual statements for the last calendar year by October.

Mr. Magid also discussed the Emerging Manager Program.

**V. Date of Next Meeting**

October 19, 2007 at Noon

**VI. Adjournment**

Adjourned at 4:03 p.m.